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To the Authority Board
South Haven Area Emergency Services Authority
South Haven, Michigan 49085

In planning and performing our audit of the financial statements of South Haven Area Emergency Services Authority for the year ended December 31, 2003, we considered the Authority's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

FINANCIAL OVERVIEW

During the fiscal year ended December 31, 2003, the Authority experienced growth in retained earnings. Revenues exceeded expenditures by approximately \$160,000. We commend the Board for their planning and budgeting. While some municipal entities are experiencing difficulties during the recent uncertain times, the Authority has positioned itself well for handling potential adverse circumstances with fund balance of approximately \$1,835,000.

SEGREGATION OF DUTIES

Control over cash receipts transactions is limited because of insufficient segregation of duties. The same individual accepts cash receipts, records cash receipts, prepares bank deposits, makes bank deposits, receives bank statements and then reconciles the statements. However, at this time, management feels that it is not cost effective to add personnel.

CAPITALIZATION POLICY

During our testing of capital assets, it was noted that there is an informal capitalization policy, however there is not a consistent threshold used in deciding whether to capitalize or expense a purchase. We recommend that the Board approve a formal capitalization policy with a specific threshold.

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CREDIT CARDS

The Authority does not presently use credit cards, but may do so very soon. Currently, there is no Board approved credit card policy in place, which is required by the State of Michigan. We recommend the Authority approve a policy, and we have attached a summary of the State requirements to this letter.

ACH TRANSACTION POLICY

Public Act 738 was passed, which allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted.

Beginning immediately, a local unit's governing body needs to adopt a policy on ACH arrangements that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;

A statement that this individual is required to submit documentation as follows:

1. describe the goods or services purchased,
 2. the cost,
 3. date of payment, and
 4. the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and the approval of invoices before payment.

We have attached the state requirements to this letter.

NEW BANK ACCOUNT

We noted that there was a transfer made at the local bank branch to open a new bank account for the self-insurance of chiropractic care. While, we did note the approval of chiropractic care coverage by the Authority Board in the minutes, there was no approval of the opening of a new bank account. In the future, all new bank accounts should be specifically approved by the Board.

CANCELLATION AND APPROVAL OF INVOICES

During our testing, we noted several invoices that were not cancelled upon payment and did not display formal approval for payment. Currently, all invoices are brought before the Board for review. Once approved and payment is made, the check copy is stapled to the invoice and other supporting documentation and filed. We recommend that the Township mark the invoice "paid" when checks are mailed. This would prevent possible double payment of invoices that may get separated from the corresponding check copy. In addition, formal approval, with corresponding signature or initials, provides an added safeguard against the payment of erroneous invoices.

FIRE CHIEF CONTRACT

Even though, for the past several years, the Fire Chief has not had a signed contract the Board has approved one. This situation could cause confusion regarding how some employment policies relate to the Chief, specifically the compensated absence policy and liability upon retirement. We recommend that the contract that was approved for 2004 be signed by a board member and the Fire Chief.

WEBSITE DEVELOPMENT

Many municipalities are currently developing or refining their websites. Many municipalities have websites, which include information such as calendar of events, election information, property taxes and assessment information, and availability to pay property taxes and utility bills on-line. Through providing these services on-line, the website may reduce the many routine inquiries that real estate agents make regarding property located in the Authority, and reduce the amount of staff time spent on the telephone helping them sort out information which could be provided electronically. We can assist your organization in implementing a website to achieve the level of service the Authority wishes to provide its residents.

NEW REPORTING MODEL – GASB 34

As you know, the Authority will be adopting a new accounting pronouncement, GASB 34, beginning January 1, 2004. GASB 34 will not significantly change your financial statements, since the Authority only has an Enterprise Fund. We will be happy to discuss this accounting change and any concerns that the Authority may have.

We appreciate the courtesy and cooperation extended to us by you and members of your organization during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

Plante & Moran, PLLC

March 23, 2004